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An evaluation of public support sustainability on young Tuscan wine farmers

Diego Begalli
Department of Business Economics, University of Verona, Italy
diego.begalli@univr.it

Paola Corsinovi
Department of Business Economics, University of Verona, Italy
paola.corsinovi@univr.it

Davide Gaeta
Department of Business Economics, University of Verona, Italy
davide.gaeta@unvr.it

∘*Purpose (mandatory):* The specific objective of this work is to analyze how public agricultural resources are allocated to the young Tuscan vignerons (between 18 and 40 years old) and if their distribution creates "leverage" effect on the principals financial values. Taking into account the economic face of sustainability, we must concentrate our attention on the long-term economics of the young farmers on the basis of their recent financial performance

∘*Design/methodology/approach (mandatory):* the results are obtained by the sum of total public support (I pillar, II pillar of CAP and OCM wine) from 2005 to 2009, crossed with the financial values: principal items of revenues and the costs. Then was calculated the profitability and its impact on revenues, without the weight of public support and the support. This research was triggered by a combination of factors: Public Support, Financial Value and Public Choice theory.

∘*Findings (mandatory):* from the first results seems that the public support has balanced only in part (5.8%). Thus public support as not changed the lose in the gross profit margin GPM, but it only covers some of the cost sustained. If there was no support the effects would have been more dramatic, especially for the future of vignerons

∘*Practical implications (if applicable):* The research can be a helpful instrument to evaluate if the political objectives of the policy makers are coherent with the actual agricultural public support between the research data or if exists a conflict efficiency and effectiveness of agricultural spending.

Key words: young winemakers, farm income, Italy

1. INTRODUTION

The effect generated by the public intervention in agriculture can be of different types. The theme of farm sustainability can be discussed under different aspects. Taking into account only the economic face of sustainability, we must concentrate our attention on the long-term economics of the vignerons on the basis of their recent financial performance (Gomez et al., 2009). From this view point the impact of the effect of public support especially in the crisis period, can be relevant for the farm development and competitiveness. The research has chosen to study young farmers because without doubt there future will effect the primary sector. The scenario of Italian agriculture is characterised by great changes and challenges, however only 6% of Italian agriculture enterprises are managed by young farmers[1]. It is a relevant argument because agriculture is amongst the sectors driven by the socio economic system and the Common Agricultural Policies (CAP) is the second highest expense for the EU. Farm subsidies and their widespread implications have played an important role in the structure of the CAP. The Common Policies regulation has under gone many changes over the last 50 years. The policy makers and agriculture lobbies have been discussed and argued against (Becker, 1983). The CAP still retains its position as the largest component of European Union expenditure, accounting for approximately 42% of the total European Union planned budget for the period 2007-2013 (Gorton et al., 2009; Swinnen, 2010). The effects and efficiency of farm income support has been widely discussed over recent decades. The CAP of the EU has been the subject of much criticism both for the budget resource it uses and for the distortions it creates inside the EU and on world markets (Swinnen et al., 2010). It is important to note, that the CAP, in the course of its evolution has been accompanied, by a number of structural measures that directly or indirectly have had environmental objectives regarding protection and control (Coleman,1998; Kay, 1998).The wine sector with its Common Market Organisation (CMO) system has been partially treated in a different way, due to lobby pressures and market structural characteristics (Gaeta, 2009). The CMO for wine has gradually evolved since 1962, with the most important regulations being adopted in 1987 (Reg. 822/87) and 1999 (Reg.1493/99). The latest CMO regulations entered into force on 1st August 2009 (Reg. 479/2008). This Regulation concerns a voluntary grubbing-up scheme where uncompetitive producers and surplus wine is being removed from the market; gradual withdrawal of distillation subsidies until 2012 (phasing out measure) for crisis distillation, potable alcohol distillation and the use of concentrated grape must measures. This aid can be allocated for development of incentive envelopments such as wine promotion, restructuring vineyards etc.[2]

2. LITERATURE REVIEW AND OBJECTIVES

The majority of studies on the political economy of the CAP use different empirical models, relating indicators of policy distortions to a set of political indicator variables, or more descriptive methods to analyse the historical development of the CAP and its context, as well as motives behind certain decisions and ideology (Harvey, 1982; Pearce, 1983; Neville-Rolfe, 1984; Tracy, 1984; Moyer et.al,1990; Josling et.al,1991; Olper, 1998; Ackrill, 2000). Most economic analysis of public policies are focused on the allocation of public support such as market failure. In the food agricultural systems around the world, instances of market failures are easily identified. As Arrow has shown (Arrow, 1964), a complete set of risk markets

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[1]   Istat-Eurostat analysis of 2007 showed there is a ratio of one young farmer "under 35", in Italy there are 13 agriculture from more than 65 years.

[2]   The Reg. 479/2008 has maintained that policies with objective to regulate winegrowing potential (Gaeta, 2009) and Reg. 555/2009 laying down detailed rules for implementing Reg. 479/2008. The reform CMO wine has been included in the CAP unique: Reg.1234/2007.

represents a sufficient condition under which a market equilibrium is a Pareto optima. Moreover, general equilibrium formulations with incomplete markets have demonstrated clearly that market failure is a fact of life. In the most general sense, a government wishing to intervene to correct market failures must design a set of rules to reduce transaction costs of the private economic system. Policies resulting from this type of governmental intervention will be referred to as political economic resource transactions or PERTs. The net effect of PERT policies is to increase the size of the pie. Note also that, in the design and implementation of PERT policies, economic markets are viewed as separate from the political process (Rausser, 1982; Rausser, et.al.,1982). The "farm problem" has been described in one context or another by different types of market failure, instability, excessive market power of the middlemen, inadequate returns for invested capital, unacceptable uncertainty, private risk aversion which exceeds society's risk aversion, and so on. Governmental intervention is introduced to provide a remedy to such problems through collective action (Becker, 1981). Much of this literature is based on the presumption that governmental intervention in some broad sense improves efficiency. This positive sum game view of governmental intervention also presumes a political economy which improves the allocation of resources. In one fashion or another, the policies introduced by the government reduce the transaction cost that would exist if the "invisible hand" were to operate (Rausser, et.al.,1982). However, in modern literature there are important gaps and several facets about the study of distributive agricultural policy, efficient support, and their impact of gross margin and the incidence on farmers revenues.

The innovative and specific objective of this work is to analyze how public resources are allocated among the young wine farmers (between 18 and 40 years old) and if their distribution creates leverage for major financial values. Indeed, this paper analyzed the leverage of public support on the gross profit margin, than the farmers profitability for discussing about the efficiency of regional agricultural and wine policies (Begalli et. al., 2009). The paper aims to verify if the political objectives of the policy makers are coherent with the actual agricultural public support between the research data or if exists a conflict efficiency and effectiveness of agricultural spending, such as Public Choice Theory discussion (Buchanan, 1962).

3. METODOLOGY

The focus of the paper is analysed one small group of 27 wine and grape producers pinpointed in the provinces of Florence and Siena in Tuscany were the wine produced is mainly Chianti and Chianti Classico[3]. As seen in figure 2.1, the research considers two types of data. The first data set is represented by the distribution of agricultural public support on the young wine farmers from 2005 to 2009[4]. This data was obtained from the Tuscany Agency for Agricultural Payments (ARTEA) database. In this paper are considered nine agriculture policies: Single Farm Payments (PUA) as the I Pillar policy; Agro-environmental, Setting up of young farmers, Farm investments and modernisation, Diversification in activities not linked to agriculture, Woodland reforestation, private land improvement, Rural Development Services and Consulting Services as the II Pillar policy and the Vineyard Reconversion and Restructuring indicator corresponds to the specific CMO policy and represents a subset of both the Total Farm support and sustainability support indicators.

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[3]   In this work, research survey groups were made of 131 young wine makers but only 27 farmers were presented.

[4]   Payments are considered in two the different support policies: RDP in 2000-2006 and RDP in 2007-2013. (Reg. 1872/2003; Reg. 1257/1999); CMO wine sector Reg. 1493/99, Reg.479/2008; Reg. 555/2008).

Fig. 2.1 Data and methodological framework
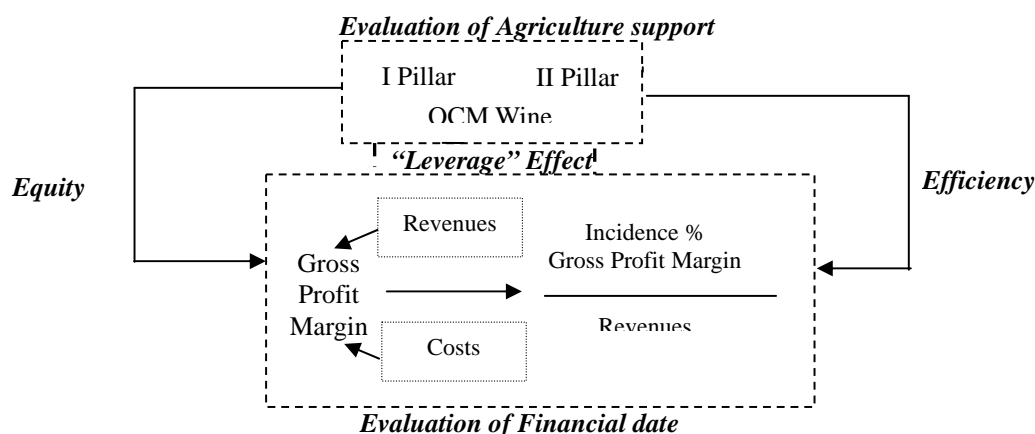
The second data set is represented by the financial values (Revenues and Costs) of young vignerons members of the Confagricoltura of Florence[5]. The results are obtained by the sum of total public support from 2005 to 2009, crossed with the financial values: principal items of revenues and the costs[6]. Then was calculated the profitability and its impact on revenues, without the weight of public support and the support (sum of the revenues and farm support) to verify if there is leverage on the gross profit marginal values and to what measures.

4. RESULTS

4.1. Analyses of public support

The effective real amount of total farm support, for the young farmers' group considered, are distribution by years and policies (I, II pillar and CMO wine) shown in table 4.1.1. The total annual farm support indicator, as seen, was obtained by the analyses of 1ˢᵗ and 2ˢᵗ pillar of CAP[7] an CMO wine (only the Vineyards Reconversion and Restructuring policy). It is the sum of single nine policies for each of the years considered. Looking at the table we see that on the total farm support, the Rural Development (II Pillar) weighs 61.4%, compared to 30.2% of I pillar and 8.3% CMO wine policies. But, the distribution of public support from 2005 to 2009 follows a different path[8]: the first pillar, as direct support to farmers (without the obligatory investment) is increasing. The second, linked to rural development and competitiveness is declining but represents only 0.3% of the total paid from Tuscany at 15ᵗʰ October 2010. The CMO wine policies keep track of the oscillations, probably due to Vineyard Reconversion policy that has been put into operation during the years 2004-2009 in compliance with CMO in wine.

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[5] Confagricoltura is one of three unions in the agricultural sector. It is the most important Italian trade union. agriculture lobbyist.

[6] These costs concern only those of production (Labor and financial expenses costs were not considered).

[7] The first pillar refers to the single farm payments. Mainly for olive oil sector and cover crops (cereals).

[8] The Tuscany region has received for the period from Rural Development 876,140,965 million Euros (from the program 2007-2013), equal to 4.97% of the Italian Rural Development budget. From 15th October 2010 (Italian Ministerial data), Tuscany has been Granted only on the 21.30% of the total support. Regarding the distribution its mainly improving the competitiveness of agriculture and forestry.

Tab.4.1.1 Amount and distribution percentage of the support by policies, years 2005-2009

	CAP (I pillar)		CAP (II pillar)		CMO wine		Total Farm Support
	€	%	€	%	€	%	€
2005	31.303	14.3	153.787	70.2	33.938	15.5	219.030
2006	49.398	19.0	204.225	78.6	6.291	2.4	259.914
2007	44.966	62.9	13.387	18.7	13.190	18.4	71.542
2008	65.636	40.7	81.233	50.4	14.266	8.9	161.136
2009	123.775	37.6	186.965	56.7	18.724	5.7	329.464
TOTAL	**315.079**		**639.598**		**86.409**		**1.041.087**

The first information about analysis of the different sources of public support is the role of the first pillar subsides (Single farm payments) and the Agro-environmental measures. They are indicators of direct support to farmers' income. A significant amount of funding comes from the I pillar subsidy percentage (Single farm payments, a direct public farm support) cover 30.2% of the total support: a value that is still very high. Agro-environmental policy (37.7%) and Farm investments (8.0%), represents the most important sources of funding given that these rural development measures transfer the total support. The policies linked to sustainability, Vineyard reconversion policy represents 8.3% of the total support). Taking into account other policies: Setting up of young farmers (7.6%), Diversification in activities not linked to agriculture (3.3%), Woodland reforestation, private land improvement policies (3.4%), Rural development services and Technical assistance are the remaining quota and the lowest support rates. Among the problems that involves the business public support system, a great impact issue on the effectiveness of the contribution is represented by the time discontinuity of financial transfers. The lowest level of total farm support (II Pillar) was obtained in 2007. This is partly due to the budgetary problems of paying entities that are, in turn, subject to financial derivatives in comparison with the EU or the Ministry of Agriculture.

4.2. Effects on revenues and costs

The paper analyses the principal revenue items: grape sales, wine sales, olive oil sales, lees agritourism and other revenues and the principle costs items analyses. In terms of marginality the work shows the distribution of total revenues (R) and costs (C) for the period 2005-2009, the difference between revenues and costs the gross profit margin (GPM), and the percentage incidence of revenues whit Public Support (GPM/Rt).

Table 4.2.1 shows the distribution from 2005 to 2009 and the average for farm of total revenues (R), total farm support (FS) and the sum of revenues and farm support (Rt); costs (C) and the percentage of gross profit margin, without FS (GPM) and with FS (GPM/Rt). As has been discussed, the level of public funding is a part of company revenues. For this reason public support acts as a cushioning variable for the effect of negative gross profit margin. Looking at the table while the revenues remain constant, the costs continue to rise, they have increased by 50% between 2005-2009. The increase of the gross profit margin, is obtained because only the principals costs items have been considered, and are not considered important costs items like employment costs. As can be seen in the last column on the incidence of gross margin percentage of revenues (GPM/R), it is clear and disturbing the reduction by 11% in five years form 57.1% in 2005 to 46.1% in 2009. Significant to answer the objectives of the paper appear to be the values that emerge from table 4.2.1. The last two columns show the percentage of the gross profit margin on revenues without a farm income

(GPM/R) and with public support (GPM/Rt) during the period 2005-2009. There is an incidence of public support which has a leverage effect of 5.8%.

Tab.4.2.1 Distribution of revenues and costs and a proportion of gross profit margin on revenues with public support. The leverage of public support

	Revenues (R)	Total Farm Support (FS)	Costs (C)	Total Reveues Rt (R + FS)	GPM (R-C)	GPM (Rt-C)	Incidence GPM/R	Incidence GPM/Rt
	€	€	€	€	€	€	%	%
2005	1.162.889	219.030	499.480	1.381.919	663.409	882.439	57.1	63.8
2006	1.166.643	259.914	495.451	1.426.558	671.191	931.106	57.5	65.2
2007	1.669.879	71.542	678.325	1.741.421	991.553	1.063.096	59.3	61.0
2008	1.874.818	161.136	968.051	2.035.954	906.766	1.067.902	48.3	52.4
2009	1.771.925	329.464	968.964	2.101.390	802.961	1.132.425	46.0	53.9

5. CONCLUSIONS

The analysed case study, even if it refers to a particular area and group, highlights some considerations that can be extended globally to public support efficiency and the real effectiveness of the sustainable economic policies. As already discussed, public support is concentrated in two policy interventions. A significant quota of funding comes from 1st pillar subsides (30.3%), the second Agro-environmental measures, as indicators of direct support to farmers' income are 37.7% of the total. They represents the most important source of funding given that this rural development measure transfers the total support. Among the Rural Development (RDP II pillar) policies linked to competitiveness, Vineyard reconversion policy cover 8.3% of the total support and Farm investments the 8.0%. The most significant results of the survey about principal revenues and costs items analyses, show the reduction of the gross margin as the difference between revenues and costs. This is caused by the increase in farm costs, they have increased by 50% between 2005-2009 and the revenues remain constant. The paper confirms that the public support has leverage on the gross profit margin. However the reduction of gross profit margin quota from 2005-2009 shows that costs have increased much more than leverage support. The incidence of GPM/R respected GP/M represented only the 5.8%. Thus public support as not changed the lose in the GPM, but it only covers some of the cost sustained. If there was no support the effects would have been more dramatic, especially for the future of vignerons. The reduction of profit has effected of rural development measures because: it is difficult to find the cofinancing quota for these measures and in relationship to the reduction in bank guarantees above all for young farmers. Paradoxically where investments are necessary to improve competitively, the resources and incentives are lacking.

On the basis of economic theory cited in the introduction it is possible to note the "distance" between the correct efficient decision, the equal redistribution of public funding and its correct application. The application and redistribution is inspired by the criteria of Public Choice more than Pareto's efficiency. The results of public allocation and measures, seem to be identified in Rausser definitions about the PERTs and PESTs policy (Rausser, 1983). The policies that are generated to correct market inefficiencies and failure that have the aims to improve a hypothetical collective welfare system, PERTs policy (it is the aim of II pillar of the CAP), finish in configuration as PESTs intervention made for private interest of the decision makers. (In the Tuscany Rural development program, for the vignerons there are only seven main financial measures where by farmers can obtain funding. But the other measures how efficient are they? Economic policy is the result of debates and political pressure what role should the pressure groups play against the institutions and policy-makers. With reference to the theory of Downs in the context of Public Choice, political parties in a

democracy formulate policy strictly as a means of gaining votes (Downs 1957). But, what will the future for young vignerons be after 2013, when the future of the CAP and market are still uncertain?

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